

FINANCIAL MANAGEMENT IN SMALL SCALE INDUSTRIES - AN OVERVIEW

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Abstract: Finance plays a significant role in the operations of any purposive organization. Proper planning and control of business finance leads to the efficient utilization of resources. Financial decisions also alter the size and variability of the earnings stream or profitability. The value of the firm is determined by financial policy decisions, such as risk and profitability. Effect financial management is basic to the survival and accomplishment of each business endeavors. Tragically, numerous MSME proprietors have moderately restricted introduction to financial management and have been uninformed of how deliberately significant it is to their business execution. The financial management function is not a standardized operation. The functions vary from firm to firm depending upon the size of the company, nature of industry and tradition. Countries over the globe don't utilize a similar definition for grouping their Small and Medium Enterprise (SME) area nor completes an all-inclusive definition give off an impression of being vital. In India, the area has been by and large alluded to as the Micro, Small and Medium Enterprises. It assumes an essential job in the by and large mechanical development of the nation. Lately the MSME segment has reliably enlisted higher development rate contrasted with the general development pace of the mechanical division. The real preferred position of the area has been its business potential at low capital expense.

Keywords: Capital, Development, decision, Investment, management

Introduction

Finance plays a significant role in the operations of any purposive organization. Proper planning and control of business finance leads to the efficient utilization of resources. Financial decisions also alter the size and variability of the earnings stream or profitability. The value of the firm is determined by financial policy decisions, such as risk and profitability. The assignment of financial management is to strike a harmony among hazard and productivity by contributing the most astounding long haul an incentive to the protections of the firm. Financial management, subsequently, plays out a pivotal job in the survival and achievement of business undertaking. The goals of budgetary administration spread the augmentation of benefits, riches and prosperity of investors. Towards this end the management must be cautious in making speculation, profit and financing choices. Financing is the basic management work which gives the methods for curing shortcomings in different zones. Financing thus is an integral part of managerial functions and responsibilities affecting an organization's performance. Further, the revolutionary changes also manager used to project sales; the engineering and production staff would determine the assets necessary to meet these demands; and the financial manager would simply raise the money necessary to purchase the plant, equipment and inventories. This mode of operation is no longer prevalent. Today, decisions are made in a much more co-ordinate manner, with financial manager directly responsible for the control process. The importance of financial management is, thus universally recognized in the business undertakings.

Industrial development is a legitimate objective to solve the economic and social problems present in any country. It assumes a critical job: in the end of the financial backwardness of the rustic and the immature areas of the nation; in the achievement of confidence; and in the decrease of territorial uneven characters.

Development of large scale enterprises as well as Micro, Small and Medium Enterprises (MSMEs) has been equally important in bringing about a radical transformation in the economic structure of a country. Unfortunately, the MSMEs have been facing problem of sickness during the past. The past studies revealed that there have been many reasons for the sickness or slow growth of the MSMEs, but the most common reason being financial distress. Hindrances in the production and operations occur, when the industries have been facing financial crisis. Almost all the problems of the industries had been mainly because of lack of adequate financial management.

Effect financial management is basic to the survival and accomplishment of each business endeavors. Tragically, numerous MSME proprietors have moderately restricted introduction to financial management and have been uninformed of how deliberately significant it is to their business execution. Wasteful financial management harms business productivity and constantly influences the development of MSMEs. Notwithstanding, absence of information of financial management, joined with the vulnerability of the business condition regularly drives MSMEs to significant issues in money related execution. Better monetary administration can lead the venture ahead in rivalry just as it will assist the business person with avoiding the circumstance of industrial disorder.

Concept of Financial Management

According to Guthmann and Dougall, "Business finance can be broadly defined as the activity concerned with the planning, raising, controlling and administering the funds used in business. This definition is concerned with financial management of profit-seeking business organizations engaged in all types of activities.

Objectives of financial management

Financial management decides how assets are secured and utilized. They identify with a company's financing and speculation strategies. To settle on unavoidable and constant budgetary choices as method of reasoning, the firm should have a goal. The properly defined and understood objectives are the key, to successfully moving from the firm's present position to a future desired position. Since business firms are profit making organizations, their objectives are frequently expressed in terms of money. Two essential targets ordinarily experienced are amplification of benefits and augmentation of riches. The last is an operationally legitimate standard to be received to boost the welfare of proprietors.

Functions of financial management

The financial management function is not a standardized operation. The functions vary from firm to firm depending upon the size of the company, nature of industry and tradition. In small units the proprietor for the most part handles all issues including the obtainment and use of assets while in the medium estimated organization monetary officials might be worried about the budgetary administration. In a major venture essential significance is given to the money related directors to take choices on different capacities, for example, profit strategy, renegotiating of developing obligation, presentation of another item, dealing with the association's working capital. Hence, the functions of financial management vary from firm to firm depending upon circumstances.

Generally, the investigation of business finance is fixated on either the management of the company's present resources; money, debt claims and inventories or the company's procurement of assets. Be that as it may, in the cutting edge approach, account capacity involves a key position in the company's general management and assumes a noteworthy job in arranging and estimating the association's requirement for assets in raising the vital assets and afterward putting the assets procured to viable use. Hence, measuring, acquiring and using of funds are the three basic functions of finance.

Statement of the Problem

MSMEs has been contributing significantly to: the employment generation; the dispersal of industrial activity to rural and backward areas ushering in all round economic growth by value addition; the mobilization of local capital; and the development of entrepreneurial skills. With decline in agricultural employment and virtual stagnation in the organized manufacturing sector, employment in MSME sector has emerged as the only ray of hope.

The history of funding the MSMEs during the past 50 years had revealed that the sector has been mostly (87.23 per cent) relying on self finance and only 12.76 per cent relying on debt finance from banking and non-banking institutions. Lack of demand and shortage of working capital have been the main reasons for acute and incipient sickness in both the registered and unregistered units in MSME sector. Every kind of problem, whether of raw material, power, transport, labour or marketing, faced by an entrepreneur in its ultimate analysis turns out to be a problem of finance.

Finance is the back bone of every business enterprise. It has to be managed effectively so that there arise no waste of physical and financial resources. It has been a critical success factor for the organization. The MSMEs have a restricted source of finance, input and technology. So they have to be more careful in utilizing them. All the entrepreneurs have the main objective of maximizing growth. The focus has been on the increase of profitability, turnover and long term growth. Sometimes, this has been achieved at the expense of short term profitability on the return on capital. This situation may not be necessarily due to lack of capital or finance, but also due to poor management of funds.

Lack of financial management has been limiting the growth of any enterprise; and at the same time, the utilization of funds got affected the use of all the other resources. Any type of entrepreneurial activity concerned with production, marketing, personnel and the like, ultimately revolves around the availability of financial resources.

Financial Management has been the key factor which determines whether a business will be successful in the long run. In the case of MSMEs, gaining profit got affected by a number of factors, like: innovative productivity, credit availability, market for their products, skilled labours and prudent financial management. Out of the above factors, management of finance has been very important as this affects the day to day running of the firm. Therefore, along with profitability, liquidity is also very important for any enterprise. The twin factors of profitability and liquidity can be achieved if a firm has got good financial management practices. It has been playing a dominant role in not only determining MSMEs' growth but also in enabling their sustainability.

Further, the type of problems that could have been caused by inefficient management of finance in MSMEs, need to be investigated so that appropriate corrective and preventive measures could be designed in these MSMEs. Good financial management practices will necessarily enhance the profitability and liquidity of MSMEs. Higher profitability will ensure growth of the enterprise and in turn provide social and economic benefits to the region where it is situated.

When a region develops, it will lead to the economic growth as well as increase in the standard of living of the people of that region. Keeping the above factors in mind the Researcher tries to evaluate the financial management practices of MSMEs in India. This will help MSME entrepreneurs not only to sustain their business without any problems in finance, but also to achieve growth of their business. This will also help the policy makers to design suitable schemes and packages for the rapid development of MSME at macro level.

Objectives of the Study

In order to have a systematic and schematic progress in the analysis of the problem in mind, the following objectives have been framed by the Researcher. They are:

1. To evaluate the existence of Accounting System in the MSMEs functioning in India.
2. To analyze the Capital Structure of MSMEs in India.
3. To study the existing Working Capital Management practices (Cash Management, Receivables Management, Payables Management and Inventory Management) of MSMEs in India.
4. To highlight the Financial Planning system followed in MSMEs
5. To identify and analyse the financial problems faced by the MSMEs.

Methodology

The present study has been based on secondary data. The relevant secondary data has been collected from the books, journals, magazines, annual reports of MSMEs, handbooks from the office of the District Industries Centre and MSME Development Institute. The information available in the websites has also been collected which are relevant for the study.

Micro Small and Medium Enterprises in Global Perspective

Countries over the globe don't utilize a similar definition for grouping their Small and Medium Enterprise (SME) area nor completes an all inclusive definition give off an impression of being vital. The definitions being used rely upon the reasons for which they have been implied, and has required to serve the strategies that oversee the SME part in this way characterized. Real parameters for the most part had been connected by most nations, independently or in mix, in characterizing SME area include:

- Capital investment in plant and machinery;
- Number of workers employed;
- Volume of production or turnover of business.

Micro, Small and Medium Enterprises have also been referred to as Small and Medium Enterprises (SMEs) and Small and Medium-sized Business (SMBs) in some countries.

The SME occurs commonly in the European Union and in international organizations, such as the World Bank, the United Nations and the World Trade Organization. The term Small and Medium-sized Business or SMBs had been predominantly used in the United States of America (USA).

In the European Union and USA, SMBs are companies whose headcount or turnover falls below certain limits. The business has classified as per the number of employees employed in it.

In South Africa the term SMME for Small, Medium and Micro Enterprises had been used. Elsewhere in Africa they have been using MSMEs.

Evolution of MSMEs in India

In India, the area has been by and large alluded to as the Micro, Small and Medium Enterprises. It assumes an essential job in the by and large mechanical development of the nation. Lately the MSME segment has reliably enlisted higher development rate contrasted with the general development pace of the mechanical division. The real preferred position of the area has been its business potential at low capital expense.

Since independent, the Government of India has defined a few mechanical strategy goals/proclamations so as to advance modern development in the nation. The evolution of the policy framework and support measures of the Government had been broadly grouped into the following three periods:

1947-1990:

The Office of Development Commissioner for MSMEs had been set up in 1954. During this period, due recognition had been given to the micro and small enterprises, with the objective of expanding employment opportunities, ensuring equitable distribution of the national income and facilitating effective mobilization of private sector resources of capital and skills. During this period, the Micro, Small and Medium Enterprises Development Organization [earlier known as Small Industries Development Organization (SIDO)], the National Small Industries Corporation, the Khadi and Village Industries Commission (KVIC) and the Coir Board had also been established, to provide supportive measures that are required to nurture Micro and Small Enterprises. During this period, approach measures had been acquainted with secure the Micro and Small Enterprises as reservation of things for their restrictive assembling, access to bank credit on need through the Priority Sector Lending Program of business banks, extract exception, reservation under the Government Purchase Program and 15% value inclination in buys, framework advancement and foundation of organizations for pioneering and ability improvement. A few MSME – Development Institutes [earlier known as Small Industries Service Institute (SISI)] the nation over had been set up to train the adolescent in abilities or business enterprise. The Small Industries Development Bank of India (SIDBI) set up in 1990, had been the main money related foundation for: advancement, financing and improvement of the MSMEs notwithstanding business banks, State Financial Corporations and State Industrial Development Corporations. Further, Tool Rooms had been built up with German and Danish help for giving specialized administrations fundamental to MSMEs as likewise for ability preparing. At the State level, District Industries Centers had been set up everywhere throughout the nation from the year 1978.

1991-1999:

The new Policy for Small, Tiny and Village Enterprises of August 1991, has laid the framework for government support in the context of liberalization, which sought to replace protection with competitiveness to infuse more vitality and growth in MSEs in the face of foreign competition and open market. Supportive measures have been taken for improving: infrastructure, technology and quality. Testing Centers have been set up for quality certification and new Tool Rooms as well as Sub-contracting Exchanges have been established. The SIDBI and a Technology Development and Modernization Fund have been made to quicken money and specialized administrations to the area. Deferred Payment Act has been sanctioned to encourage brief installment of levy to MSEs, and the Industrial Infrastructure Development (IID) plot has been propelled to set up smaller than expected mechanical domains for little ventures.

1999 onwards:

The Government of India has built up the Ministry of Small Scale Industries and Agro and Rural Industries (SSI&ARI) in October 1999 as the nodal service for plan of arrangements and Central area projects or plans, their execution and related coordination and for enhancing the endeavors of the States or Union Territories for advancement and improvement of these ventures in the nation. The service of SSI&ARI has been bifurcated into two separate services, in particular, Ministry of Small Scale Industries and Ministry of Agro and Rural Industries, in September, 2001.

Before the usage of MSME Act, 2006, the segment had been characterized, according to the arrangement of Industries Development and Regulation Act 1951, as SSI division. What's more, its constituent minor and helper units according to the occasional update of criteria for characterizing such units.

Micro, Small and Medium Enterprises Development Act (MSMED), 2006

The order of "Miniaturized scale, Small and Medium Enterprises Development (MSMED) Act 2006, by the President under Notification dated ninth May 2007 has corrected the Government of India (Allocation of Business) Rules, 1961. According to this correction, Ministry of Agro and Rural Industries and Ministry of Small Scale Industries have been converged into a solitary Ministry, to be specific, "Service of Micro, Small and Medium Enterprises". The Second Schedule of the Government of India (Allocation of Business) Rules 1961 shows the business dispensed to the Ministry of Micro, Small and Medium Enterprises.

The extension and inclusion of the MSME area has been expanded fundamentally under the MSMED Act, 2006, which perceived the idea of "big business" and incorporate both assembling and administrations division, other than characterizing the

medium ventures under MSME part. Subsequently the whole non-farming area of the Indian economy has been brought under the inclusion of MSME division subject to the reconsidered criteria endorsed for characterizing MSMEs, independently for assembling and administrations segments. These definitions have been based on their investment in plant and machinery for manufacturing enterprises and on equipment for enterprises providing or rendering services, which is explained through the following table.

Table 1
Investment Limit of MSMEs

Classification	Manufacturing Enterprise	Service Enterprise
Micro	Upto 25,00,000	Upto 10,00,000
Small	25,00,001 upto 5,00,00,000	10,00,001 upto 2,00,00,000
Medium	5,00,00,001 upto 10,00,00,000	2,00,00,001 upto 5,00,00,000
SOURCE: MSME Development Act, 2006		

The organization of the MSME part has been falling under the purview of the Ministry of MSMEs of the Government of India. It plans and executes strategies and projects through its field associations and appended workplaces for advancement and development of the MSME area.

The workplace of the Development Commissioner (MSMEs) has been working as the nodal Development Agency under the Ministry of MSMEs. It has been the peak body to prompt, facilitate and figure approaches and projects for the improvement and advancement of the MSME Sector. The workplace has likewise been keeping up contact with Central Ministries and other Central or State Government offices or associations just as other money related organizations.

In this way, the Government of India's strategy activities like: the order of the MSME Act, 2006; pruning of saved SSI list; encouraging Financial Institutions to expand their progression of credit to the SME part, all these have supported: business, speculation, and development. The Micro, Small and Medium Enterprises Development Bill 2005, having been passed by both the places of Parliament, got the consent of the President on sixteenth June 2006. It has gone ahead the Statute Book as the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006) and come into power from second October, 2006. The sanctioning of the Bill has been the result of the requests from the different SME relationship in the nation as likewise of the few master advisory groups.

The Government of India appointed the Administrative Staff College of India (ASCI) to undertake a detailed study on the issues demanding a basic law for small industry. Earlier, the Abid Hussain Committee had recommended such a basic law. The ASCI came out with its report in January 2001, and has been subsequently discussed in detail at various levels. Subsequently, a National Focus Group has been setup, in order to evaluate this detailed report, consisting of three volumes. One of the primary objectives of the Act has been to make provisions for ensuring timely and smooth flow of credit to SME's and minimize sickness amongst them.

Earlier, industrial units in India, based on investment ceiling on the installed plants and machinery, have been classified as small scale and large scale units in broad terms. Within small-scale sector, there has been sub-classifications such as: ancillary units, tiny units, women enterprises, and small scale services and business units. The medium scale units have not been earlier defined in India. However, following the enactment of MSME Act, 2006, enterprises in India have been broadly classified into micro units, small units, medium units and large units.

The development of the MSME sector has been in the Government of India's priority Agenda. As per the Results-Framework Document (RFD) for Ministry of MSMEs (2012-2013), the Mission of the government has been to: Promote growth and development of globally competitive Micro, Small and Medium Enterprises including Khadi, Village and Coir Industries in cooperation with concerned Ministries or Departments, State Governments and other stakeholders: provide support to the existing enterprises; encourage creation of new enterprises; Endeavour to achieve a cumulative growth of 40 to 50 percent in the number of registered enterprises; and enhance this sector's contribution to GDP from the present 8 to 10 percent by the end of the 12th plan period.

The role of MSMEs in the financial and social improvement of the nation has been settled. This is apparent from the accompanying: according to the Report of the Working Group on MSMEs Growth for twelfth Five Year Plan period (2012-2017), the segment has been relied upon to: account 45 percent of the assembling yield and 40 percent of the complete fares of the nation; give work to around 69 million people through 26 million undertakings all through the nation. More than 6000 items extending from conventional to innovative things have been produced by the MSMEs in India.

The MSME part in India has been very heterogeneous as far as the size of: the endeavors, assortment of items and administrations delivered, and the degrees of innovation utilized. The area has a high development potential and plays out a basic job in the assembling and worth chains. MSME segment has been described by: low venture prerequisite, operational adaptability and area insightful portability.

As per the Report of the Subgroup on Unorganized Sector (of the Working Group on MSMEs Growth during 12th Plan), although Indian MSMEs have been diverse and heterogeneous group, they face some common problems, which are briefly indicated below:

- i. Lack of availability of adequate and timely credit;
- ii. High cost of credit;
- iii. Inability to meet collateral requirements;
- iv. Limited access to equity capital;
- v. Problems in supply to government departments and agencies;
- vi. Problem in the procurement of raw materials at a competitive cost;
- vii. Problems of storage, designing, packaging and product display;
- viii. Lack of access to global markets;
- ix. Inadequate infrastructure facilities, including power, water, roads
- x. Low technology levels and lack of access to modern technology;
- xi. Lack of skilled manpower for manufacturing, services, marketing.
- xii. Multiplicity of labour laws and complicated procedures associated with compliance of such laws;
- xiii. Absence of a suitable mechanism which enables the quick revival of viable sick enterprises and allows unviable entities to close down speedily; and
- xiv. Issues relating to taxation, both direct and indirect, and procedures thereof.
- xv. Lack of Social Security.

A noticeable downside of the MSME part is that a transcendent number (94 percent) of the endeavors have been in the chaotic segment. Because of this, there has been absence of solid and refreshed database and it hampers observing of advancement activities and definition of suitable plans to meet the differential needs of the heterogeneous profile of the enterprises.

One more issue looked by these ventures is the entrance to value and credit. More often than not, the capital has been originating from the investment funds and advances from companions and relatives as opposed to from the financial frameworks. All the time, the credit has been originating from activities or local reserve funds instead of built up frameworks of shoddy bank credit for working capital necessities.

This part additionally has poor reimbursing limit and thusly faces deficiency of talented labor bringing about nonappearance of administrative abilities, promoting channels and brand building limit.

As of late, GOI has declared various measures in its first spending plan in July 2014 and a Committee has likewise been proposed to analyze the money related design so as to expel bottlenecks and make new standards and structures for the area.

The Hon'ble Prime Minister, Shri. Narendra Modi has been making a contribute for Make India crusade and urging outside makers to set up units in India. This has been an empowering pattern and would surely support business, development and advancement of MSMEs in India. Therefore, the focal point of the Government on MSMEs at this crossroads of the monetary droop has been supported on the grounds that these units have the potential for giving development and business.

Recent Trends in MSME Sector

According to the Ministry of MSME report relating to the year 2013-14, the all out number of endeavors in MSME area was 488.46 lakh with complete work of 1114.29 lakh. 90.08 percent of the ventures in the Registered MSME part has been restrictive endeavors. 4.01 percent of the ventures has been controlled by organizations pursued by 2.78 percent kept running by privately owned businesses. The rest has been possessed by co-agents or trusts or others. 67.10 percent of the undertakings in the Registered MSME part has been occupied with assembling, though 32.90 percent of the endeavors has been occupied with the administrations exercises.

The work to capital proportion in MSMEs and the general development in the MSME division has been a lot higher than in the enormous businesses area. The land circulation of the MSMEs had additionally more equitably spread all through the country. In this manner, MSMEs have been significant for the national targets of development with value and consideration.

The fourth Census of MSME segment uncovered that solitary 10.87 percent of the units had benefited of money through institutional sources. While 1.05 percent had money from non-institutional sources and most of the units (87.23 percent) had relied upon self fund. Just 2 percent of the MSMEs have benefited the advance. This proposes notwithstanding best endeavors, the credit stream to MSMEs from the institutional sources has not been equivalent with the financial action attempted by the MSMEs.

According to the 2013-2014 Economic Survey Report, 94.9 percent of enlisted MSME units have been smaller scale endeavors while just 4.9 percent has been little ventures and 0.2 percent is medium undertakings.

Conclusion

Financial Management is a fundamental piece of the financial and non economic exercises which prompts choose the effective acquirement and use of account with productive way. In the days of yore the subject Financial Management was a piece of bookkeeping with the conventional methodologies. Presently a days it has been developed with creative and multi dimensional capacities in the field of business with the impact of industrialization. Financial Management has turned into a fundamental piece of the business concern and they are moving more in the field of Financial Management. Financial Management additionally created as corporate fund, business money, monetary financial aspects, money related science and financial engineering. Understanding the fundamental idea about the financial management turns into a basic part for the understudies of financial matters, trade and the board.

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